

Message Text

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SUBJECT: POTENTIAL IMPACT ON INCREASED INCOME TAXES FOR AMERICANS
OVERSEAS

REF ABU DHABI 3277

1. SUMMARY: INCREASED TAXES FOR US NATIONALS EMPLOYED IN
SAUDI ARABIA LEAD US TO BELIEVE THAT THE LAW WILL HARM U.S.
INTERESTS HERE; IT WILL DECREASE THE NUMBER OF AMERICANS
AND THUS CAUSE LOSSES IN US EXPORTS, REPATRIATION EARNINGS
AND ECONOMIC INFLUENCE. A PRECISE ESTIMATE OF THE EXTENT
OF THE LOSSES TO THE AMERICAN ECONOMY IS DIFFICULT TO
TO MAKE, BUT AT A TIME OF RISING US OIL IMPORT COSTS ANY
LOSS IN BILATERAL BALANCES OF PAYMENTS WITH SAUDI ARABIA
BECOMES MORE SIGNIFICANT. THIS IS ESPECIALLY THE CASE
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WHEN EFFECTS OF THE NEW TAX LAW MAY DIMINISH US ACCESS
TO SAG DEVELOPMENT EXPENDITURES OF OVER \$142 BILLION IN
THE 1976-1980 PERIOD, AS WELL AS AMBITIOUS PRIVATE
INVESTMENT PLANS. END SUMMARY.

2. THERE ARE CURRENTLY ABOUT 28,000 US NATIONALS IN

SAUDI ARABIA. THIS FIGURE INCLUDES DEPENDENTS. WE
ORIGINALLY ESTIMATED THAT AT THE END OF 1978 THERE WOULD
BE 50,000 AMERICANS IN SAUDI ARABIA. OF THIS NUMBER,
SOME 20,000 OR MORE COULD BE WAGE EARNERS AVERAGING A
MINIMUM OF \$24,000 ANNUALLY. BECAUSE OF HIGH AND
NECESSARY ALLOWANCES AND OTHER EMOLUMENTS WHICH INCLUDE
HOUSING, UTILITIES, LOCAL TRANSPORT, RECREATION TRAVEL,
HEALTH CARE, ETC., IT IS BELIEVED THAT MUCH OF AN
AMERICAN EXPATRIATE'S SALARY HERE IS REMITTED TO THE US.
IF THE ABOVE FIGURES HOLD, THEN IN 1978 SOME \$480,000,000
WOULD BE EARNED BY AMERICANS IN SAUDI ARABIA, MOST OF
WHICH WOULD GO TO THE US. U.S. FIRMS GENERALLY PAY
DOLLAR SALARIES TO THE EMPLOYEES' U.S. BANK ACCOUNT.

3. THE PRIME MOTIVATION FOR U.S. NATIONALS TO WORK IN
A COUNTRY LIKE SAUDI ARABIA, WHERE WOMEN'S ACTIVITIES ARE
RESTRICTED BY CUTOM (I.E., WOMEN CAN NEITHER WORK NOR
DRIVE), THERE ARE NO CINEMAS, OR OTHER NORMAL SOCIAL
ENTERTAINMENT; NO ALCOHOLIC BEVERAGES, AND AN UNHEALTH-
FUL AND UNCOMFORTABLE CLIMATE, IS A HIGH SALARY COMBINED
WITH GENEROUS ALLOWANCES. THE MAJORITY OF US EXPATRI-
ATES HERE INDICATE THAT INCREASED USTAXES WOULD ERODE
THESE ADVANTAGES AND WOULD RENDER EMPLOYMENT IN SAUDI
ARABIA MOST UNATTRACTIVE, AND THEY WOULD PREFER TO
RETURN TO THE U.S.

4. DURING RECENT CODEL ABOUREZK'S VISIT, EMBASSY
ARRANGED ROUNDTABLE CONFERENCE LUNCHEON WITH 16 TOP-
SCALE US BUSINESS MANAGERS IN RIYAH. ALL OF THEM CAME
DOWN HARD ON ABOUREZ WHO FINALLY EXPRESSED REGRET THAT
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HE HAD VOTED FOR THE LEGISLATION. U.S. PARTICIPANTS
POINTED OUT THAT US EMPLOYEES IN SAUDI ARABIA HAD A
BENEFICIAL MULTIPLIER EFFECT ON US EXPORTS AND CONTRIB-
UTED GREATLY IN STRENGTHENING US POLITICAL AS WELL AS
ECONOMIC TIES IN SAUDI ARABIA.

5. BRITISH EXATRIATES, FOR EXAMPLE, WILL ACCEPT A
LOWER LOCAL BASE PAY, IN MOST CASES ON-THIRD LESS THAN
THE RATES TO AMERICANS, BECAUSE THERE ARE NOT BRITISH
TAXES ON OVERSEAS EMPLOYMENT INCOME. NEVERTHELESS, TO
DATE, MANY LOCAL FIRMS, PARTICULARLY SAUDI, PREFER US
EXPERTISE AND WILLINGLY PAY HIGHER PREMIUMS FOR U.S.
WORKERS. IN A FULL US TAX PAYABLE SITUATION, THESE
LURES WILL NOT HAVE THE SAME APPEAL. HIGHER PAY AND
ALLOWANCES WILL BURDEN THE US EXPATRIATE WITH A LARGER
TAX BILL, WHICH WILL INCREASE WITH HIGHER RETURNS FROM
SAUDIS.

6. IT IS POSSIBLE THAT THE US NATIONAL WHO HAS BEEN HERE FOR A LONGER TERM-OVER THREE YEARS-WILL STAY AND POSSIBLY SEEK SOME ALTERNATIVES TO THE LOSS OF INCOME. THESE ARE IN THE MINORITY. SHORT TERMERS, THE GREATER PROPORTION, INDICATE THAT THEY WILL LEAVE. MANAGERS FRANKLY ADMIT THAT RECRUITMENT OF U.S. PERSONNEL WILL DROP CONSIDERABLY.

7. ASIDE FROM THE SIMPLER MATHEMATICS OF LOSSES TO US INDIVIDUALS, THE LOSSES TO THE USG COULD BE SIGNIFICANT. THE TAX BILL COMES AT A TIME WHEN THE VOLUME AND COSTS OF OIL IMPORTS FROM SAUDI ARABIA ARE INCREASING. IN 1976, US GOODS TRADE BALANCES WITH SAUDI ARABIA WILL BE OVER \$2 BILLION IN DEFICIT. AT PRESENT, SERVICES AND CONTRACTS INVOLVING US EXPERTISE ARE THE ONLY FACTORS ENABLING THE USG TO REDRESS THE BALANCE OF PAYMENTS. MANY OF THE DESIGN, ARCHITECTURAL AND CONSULTING SERVICE CONTRACTS COULD NOT CONTINUE WITHOUT INVOLVEMENT OF US UNCLASSIFIED

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NATIONALS. A SECONDARY BUT EQUALLY IMPORTANT ASPECT IS THE FACT THAT A DECREASE IN THE PRESENCE OF US NATIONALS IN SAUDI ARABIA WILL ALSO DIMINISH US ACCESS TO SAG DEVELOPMENT PUBLIC EXPENDITURES OF OVER \$142 BILLION BETWEEN 1976-1980 PERIOD. THE PRIVATE SECTOR ALSO HAS IMPORTANT INVESTMENT PLANS WHICH WILL REQUIRE FURTHER EXPENDITURES ESTIMATED IN THE BILLIONS. PORTER

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